

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

Baton Rouge, Louisiana

FINANCIAL REPORT

June 30, 2009

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 2/17/10

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.
Baton Rouge, Louisiana

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Louisiana Health and Rehabilitation Center, Inc.
Baton Rouge, Louisiana

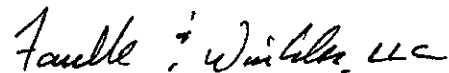
We have audited the accompanying statement of financial position of the **LOUISIANA HEALTH AND REHABILITATION CENTER, INC. (LHRC)** (a non-profit organization) as of June 30, 2009, and the related statement of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of LHRC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of **LOUISIANA HEALTH AND REHABILITATION CENTER, INC.** as of June 30, 2009 and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2009 on our consideration of the **LOUISIANA HEALTH AND REHABILITATION CENTER, INC.**'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the **LOUISIANA HEALTH AND REHABILITATION CENTER, INC.**'s basic financial statements. The schedule of operating income by program is presented for purposes of additional analysis and is not a required part of the financial statements of LHRC. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Certified Public Accountants

Baton Rouge, Louisiana
November 14, 2009

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

Baton Rouge, Louisiana

STATEMENT OF FINANCIAL POSITION

June 30, 2009

ASSETS**CURRENT ASSETS**

Cash	\$ 448,972
Restricted cash	947
Investments	139,653
Receivables, net	413,917
Prepaid expenses	<u>73,343</u>
Total current assets	1,076,832

PROPERTY AND EQUIPMENT, net	574,930
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OTHER	<u>5,473</u>
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Total assets	<u><u>\$ 1,657,235</u></u>
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LIABILITIES AND NET ASSETS**CURRENT LIABILITIES**

Accounts payable	\$ 47,867
Accrued expenses	171,725
Amounts held for others	947
Current portion of long term debt	<u>164,821</u>
Total current liabilities	385,360

DUE TO RELATED PARTY	<u>22,203</u>
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Total liabilities	407,563
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NET ASSETS

Unrestricted	<u>1,249,672</u>
Total liabilities and net assets	<u><u>\$ 1,657,235</u></u>

The accompanying notes to the financial statements
are an integral part of this statement.

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

Baton Rouge, Louisiana

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended June 30, 2009

SUPPORT AND REVENUE

Public Support:

Reality House	\$ 662,039
Awakening	561,721
ATR/Transitional	529,316
Children's Choice	170,412
Ryan White HIV/AIDS Treatment Modernization Act Grant	107,372
Planned Therapeutic Recreation	105,537
Divine Intervention	102,824
Baton Rouge Waiver	58,268
Capital Area Substance Abuse Prevention	45,766
Other	32,210
Rent and other	58,489
Investment loss, net	<u>(51,015)</u>
Total support and revenue	<u>2,382,939</u>

EXPENSES

Payroll	1,733,170
Direct services	387,329
Occupancy	386,099
Bad debt	175,981
Professional services	78,948
Supplies	84,242
Depreciation	41,923
Other	<u>101,721</u>
Total expenses	<u>2,989,413</u>
Decrease in net assets	(606,474)

NET ASSETS - UNRESTRICTED

Beginning of year	<u>1,856,146</u>
End of year	<u>\$ 1,249,672</u>

The accompanying notes to the financial statements
are an integral part of this statement.

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

Baton Rouge, Louisiana

STATEMENT OF CASH FLOWS

For the year ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Decrease in net assets	\$ (606,474)
Adjustments for non-cash items:	
Depreciation	41,923
Unrealized investment loss, net	54,458
Change in operating assets and liabilities:	
Increase in receivables	(97,970)
Increase in prepaid expenses and other assets	(57,335)
Increase in accounts payable and other current liabilities	<u>46,462</u>
Net cash used by operating activities	<u>(618,936)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(109,661)
Purchase of investment	<u>(11,270)</u>
Net cash used by investing activities	<u>(120,931)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on long-term debt	(12,552)
Payments from related parties, net	<u>(12,608)</u>
Net cash used by financing activities	<u>(25,160)</u>
Net decrease in cash	(765,027)

CASH, including restricted cash

Beginning of year	<u>1,214,946</u>
End of year	<u><u>\$ 449,919</u></u>

CASH

Cash	\$ 448,972
Restricted cash	<u>947</u>
Total cash	<u><u>\$ 449,919</u></u>

The accompanying notes to the financial statements
are an integral part of this statement.

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.
Baton Rouge, Louisiana

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

Louisiana Health and Rehabilitation Center, Inc. (LHRC) is a non-profit corporation whose purpose is to provide therapeutic psychiatric programs to eliminate inappropriate and maladaptive behaviors. Their services are designed to help persons with developmental disabilities, and severe and persistent behavioral problems reach their maximum functioning level in the community.

All programs are operated in southern Louisiana and are primarily funded by the State of Louisiana agencies through the Department of Health and Hospitals.

Basis of presentation

The financial statements of LHRC have been prepared on the accrual basis of accounting.

LHRC reports its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. LHRC did not have any temporarily or permanently restricted net assets for the year ended June 30, 2009.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used primarily when accounting for depreciation and allowance for doubtful accounts.

Revenue recognition

Revenue from grants and contracts are recognized according to the specific agreement. Generally, revenues from restricted grants are recognized in the period of the grant award while revenues from cost reimbursement contracts are recognized to the extent of services provided.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash, for purposes of the statement of cash flows, consists of cash on hand, demand deposit and savings accounts, except that cash and cash equivalents that represent client accounts are included with restricted cash.

Investments in mutual funds are classified as investments.

Restricted Cash

LHRC, as custodial agent, maintains cash for clients in several of its programs. These amounts are segregated from LHRC's cash accounts.

Investments and investment income

Financial Accounting Standards Board Statement No. 157, Fair Value Measurements, (FASB 157), establishes a framework for measuring fair value which provides a fair value hierarchy that prioritizes the sources of pricing information (inputs) to valuation techniques used to measure fair value. The highest priority is given to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under FASB 157 are described as follows:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets that LHRC has the ability to access.

Level 2 – Inputs including:

Quoted prices for similar assets or liabilities in active markets;
Quoted prices for identical or similar assets or liabilities in inactive markets;
Inputs other than quoted prices that are observable for the asset or liability;
Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs that are unobservable and significant to the fair value measurement.

LHRC's investments are stated at fair value, with the amount of unrealized gain or loss recorded in the statement of activities. Shares of registered investment companies (mutual funds) are valued at the quoted net asset value of such investments held by LHRC at year end. Purchases and sales of securities are recorded on a trade-date basis, at which time the realized gain or loss is recognized in the statement of activities. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts receivable and allowance for doubtful accounts

Accounts receivable are recorded at cost, net of an allowance for doubtful accounts. Management evaluates collectability of its accounts receivable on a per customer basis and does not require collateral for its receivables. At June 30, 2009, the allowance for doubtful accounts is \$49,149.

Property and equipment

Property and equipment are carried at cost. Additions, renewals, and betterments that extend the life of assets are capitalized; maintenance and repair expenditures are expensed as incurred. The cost of property and equipment sold or otherwise disposed and the accumulated depreciation thereon are eliminated from the property and related accumulated depreciation accounts, and any gain or loss is credited or charged to income.

Depreciation is provided using the straight-line method over the estimated useful lives of the property, ranging from five to forty years.

Paid time off

Paid time off is earned at varying rates from two to four weeks per year depending on length of service. A maximum of two weeks paid time off may be carried over at each employee's anniversary date. At June 30, 2009, \$34,237 has been accrued for paid time off.

Fair value of financial instruments

The carrying value of cash, receivables, accounts payable, and accrued expenses approximate fair value due to the short-term maturity of these instruments. None of the financial instruments are held for trading purposes.

Income taxes

The Organization is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pension Plan

LHRC has adopted a 401(k) retirement plan with a 3% matching option. Under the provisions of the plan, employees may elect to defer a percentage of their compensation up to a maximum of \$16,500 annually. Salary deferrals and the related earnings are 100% vested and non-forfeitable. During the year ended June 30, 2009, LHRC contributed \$15,056 to the plan.

These assets are held in the trust fund established under the Plan; the trust fund is independent of LHRC. The responsibility for administration of the Plan is with Mutual of America Insurance Company.

Advertising

LHRC expenses advertising costs as incurred. Advertising expense for the year ended June 30, 2009 was \$4,088.

NOTE 2 - INVESTMENTS

Investments in mutual funds at June 30, 2009 have a cost of \$198,904 and market value (financial statement basis) of \$139,653. Mutual funds are considered as level one investments in the fair value hierarchy.

The summary of investment return at June 30, 2009 is as follows:

	<u>Amount</u>
Dividends and capital gain distributions	\$ 3,443
Unrealized losses, net	<u>(54,458)</u>
	<u>\$ (51,015)</u>

(Continued)

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment, related service lives and accumulated depreciation at June 30, 2009, are as follows:

	Estimated Service Lives	Amount
Building	39-40 years	\$ 267,263
Leasehold improvements	39 years	154,443
Furniture and equipment	5-7 years	125,393
Vehicles	5 years	180,474
Land	-	70,000
		797,573
Less accumulated depreciation		(222,643)
		<u>\$ 574,930</u>

Depreciation expense was \$41,923 for the year ended June 30, 2009.

NOTE 4 - LONG TERM DEBT

Long-term debt consists of a 6.5% note payable in 59 monthly installments of \$1,858 and one final payment of \$164,821, secured by building, and maturing August 2009. This debt has been classified as current.

NOTE 5 - RELATED PARTY TRANSACTIONS

LHRC leased premises to and from Harmony Center, Inc. for the year ended June 30, 2009. The Executive Director of LHRC is affiliated with Harmony Center, Inc. During 2009, LHRC received rent and reimbursements from Harmony Center of \$18,127, and paid rent to Harmony Center of \$5,854.

LHRC leased premises from Johnson Management Group for the year ended June 30, 2009. The Executive Director of LHRC is a managing member of Johnson Management Group. The rental expense incurred under these leases was \$72,000 for the year ended June 30, 2009.

LHRC leased premises from Temple Properties, LLC, for the year ended June 30, 2009. The Executive Director of LHRC is a member of Temple Properties, LLC. The rental expense incurred under these leases was \$56,400 for the year ended June 30, 2009.

LHRC leases office space and a vehicle to Louisiana Health & Rehab Options, Inc. (LHRO), a Louisiana corporation owned by the Executive Director. The rental expense incurred by LHRC under these lease agreements was \$6,432 for the year ended June 30, 2009. In addition, LHRC received \$22,487 from LHRO for the lease of office space and a vehicle. At June 30, 2009, LHRC owed Louisiana Health & Rehab Options, Inc. \$22,203. See note 9.

NOTE 6 - ECONOMIC DEPENDENCY

LHRC derives its revenues from governmental sources as earned revenue or grants, the loss of which would have a material adverse effect on the Organization. During the year ended June 30, 2009, revenue derived from governmental sources accounted for the majority of support recorded by LHRC.

NOTE 7 - CONCENTRATIONS OF CREDIT RISK

Financial instruments which subject LHRC to concentrations of credit risk consist primarily of receivables. In addition, LHRC maintains cash in local banks, which may, at times, exceed the FDIC limits. Management believes the risk is limited.

NOTE 8 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash payments for interest for the year ended June 30, 2009 was \$5,903.

NOTE 9 - OPERATING LEASE

LHRC has entered into a three year non-cancelable operating lease for office space. LHRC subleases a portion of the office space to LHRO. The amount paid during 2009 for the lease was \$18,798. The amount received during 2009 from the sublease was \$10,887. Future minimum lease payments and receipts are as follows:

<u>Year</u>	<u>Expense</u>	<u>Sublease</u>
2010	\$ 37,596	\$ 21,774
2011	37,596	21,774
2012	18,798	10,887
	<u>\$ 93,990</u>	<u>\$ 54,435</u>

Additionally, LHRC leases office furniture from LHRO. The amount paid during 2009 for this lease was \$2,517. Future minimum lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 5,034
2011	5,034
2012	5,034
2013	5,034
	<u>\$ 20,136</u>

NOTE 10 - CONTINGENCIES

Public Support

LHRC receives federal and state contracts for specific purposes that are subject to audit by the agencies. Such audits could lead to requests for reimbursement to the agency for expenditures disallowed under terms of the contract. It is the opinion of management that LHRC's compliance with the terms of contracts will result in negligible, if any, disallowed costs.

Risk Management

Various lawsuits arise in the normal course of LHRC's business. Management believes that losses resulting from these matters, if any, will not have a material effect on the operations or financial position of LHRC.

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 14, 2009, the date the financial statements were available to be issued.

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.
SCHEDULE OF OPERATING INCOME - BY PROGRAM

Year ended June 30, 2009

	Reality House	Awakening	ATR/ Transitional	Children Choice	Ryan White	Planned Therapeutic Recreation	Divine Intervention	Waiver Services	Capital Area Substance Abuse Prevention	Teen Pregnancy Prevention	GLAD Program	Admin	TOTAL
Support and Revenue													
Public support	\$ 662,039	\$ 561,721	\$ 529,316	\$ 170,412	\$ 107,372	\$ 105,537	\$ 102,824	\$ 58,268	\$ 45,766	\$ 4,263	\$ 27,947	\$ -	\$ 2,375,465
Rent	-	-	5,926	-	-	-	-	-	-	-	-	36,887	42,813
Other income	9,322	-	23	-	2,435	106	21	-	-	-	-	3,769	15,676
Investment loss, net	-	-	-	-	-	-	-	-	-	-	-	(51,015)	(51,015)
Total revenue	671,361	561,721	535,265	170,412	109,807	105,643	102,845	58,268	45,766	4,263	27,947	(10,359)	2,382,939
Expenses													
Payroll													
Wages	303,222	294,361	288,976	97,193	48,776	49,871	50,239	26,288	36,758	12,724	-	287,766	1,496,174
Benefits	16,967	5,304	6,310	1,249	2,499	5,649	2,066	1,212	2,913	-	-	43,008	87,177
Taxes and insurance	28,508	28,770	28,768	9,618	5,090	4,520	5,874	2,498	3,445	1,351	425	30,952	149,819
Direct Services													
Client	23,359	27,965	48,190	2,821	42	23,364	15,737	156	5,311	821	-	14,092	161,858
Contract for outside services	13,658	11,805	26,131	-	9,684	402	29,516	-	120	-	-	90,884	182,200
Food	1,475	24,523	14,765	-	26	-	59	-	1,404	441	-	578	43,271
Occupancy													
Rent	30,000	38,899	68,810	-	-	5,242	1,179	-	-	-	-	55,985	200,115
Utilities	28,820	21,254	28,512	(368)	175	325	26	316	7	-	-	12,055	91,122
Repairs and maintenance	11,326	11,301	13,658	-	-	461	61	-	862	18	-	13,718	51,405
Other	4,139	410	1,758	21	105	372	63	200	64	-	-	36,325	43,457
Bad debt	-	76,585	-	31,933	-	-	-	21,732	-	45,731	-	-	175,981
Professional services	554	39,872	781	-	-	-	45	-	-	-	-	37,696	78,948
Supplies	14,098	17,380	7,974	3	-	941	2,706	7	1,816	850	-	38,467	84,242
Depreciation	5,247	6,897	5,229	-	-	1,155	261	-	162	-	-	22,972	41,923
Other	2,955	4,834	24,567	24	116	70	184	-	1,006	-	-	67,965	101,721
Total expenses	484,328	610,160	564,429	142,494	66,513	92,372	108,016	52,409	53,868	61,936	425	752,463	2,989,413
Increase (decrease) in net assets	187,033	(48,439)	(29,164)	27,918	43,294	13,271	(5,171)	5,859	(8,102)	(57,673)	27,522	(762,822)	(606,474)
Central office allocation	(178,590)	(196,155)	(210,313)	(41,670)	(25,757)	(33,682)	(38,507)	(12,684)	(18,589)	(6,701)	(174)	762,822	-
Increase (decrease) in net assets	\$ 8,443	\$ (244,594)	\$ (239,477)	\$ (13,752)	\$ 17,537	\$ (20,411)	\$ (43,678)	\$ (6,825)	\$ (26,691)	\$ (64,374)	\$ 27,348	\$ -	\$ (606,474)

See Independent Auditors' Report.

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

Baton Rouge, Louisiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2009

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

Baton Rouge, Louisiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2009

Grantor/State Pass-through/ Program name/ Location of Project	CFDA Number	Grant Amount	Federal Expenditures
U.S. Department of Housing and Urban Development			
City of Baton Rouge\Office of Community Development			
Housing Opportunities for Persons with AIDS	14.241	\$ 113,309	\$ 102,824
U.S. Department of Health and Human Services			
State of Louisiana\Department of Health and Hospitals			
Capital Area Human Services District			
Children of Parents with Addictive Disorders	93.959	50,350	45,766
Block Grants for the Prevention and Treatment of Substance Abuse	93.959	146,652	97,601
Pregnant and Postpartum Women Program	93.959	56,784	16,663
TANF			
Reality House	93.558	497,526	220,394
State of Louisiana\Department of Health and Hospitals			
Office of Addictive Disorders			
* Access to Recovery	93.275	606,000	521,138
Health Resources and Services Administration			
City of Baton Rouge\Office of Community Development			
Ryan White Services/			
HIV Emergency Relief Project Grant	93.914	103,405	54,542
Minority Aids Initiative Grant	93.914	55,159	964
State of Louisiana\Department of Social Services			
Office of Community Services			
Teen Pregnancy Prevention	93.588	123,102	4,263
* Awakening Emergency Shelter	unavailable	1,524,317	548,554
Total Federal Assistance			<u>\$ 1,612,709</u>

* Major program

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.
Baton Rouge, Louisiana

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Louisiana Health and Rehabilitation Center, Inc. (LHRC) Schedule of Expenditures of Federal Awards presents the activity of the federal assistance programs of LHRC. All federal assistance received directly from federal agencies as well as federal assistance passed-through other government agencies are included on the schedule.

Basis of Accounting

The Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the LHRC's financial statements for the year ended June 30, 2009.

Special Independent Auditors' Report

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.
Baton Rouge, Louisiana

June 30, 2009



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Louisiana Health and Rehabilitation Center, Inc.
Baton Rouge, Louisiana

We have audited the financial statements of **LOUISIANA HEALTH AND REHABILITATION CENTER, INC.** (a non-profit organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered LHRC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LHRC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LHRC's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely effects LHRC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of LHRC's financial statements that is more than inconsequential will not be prevented or detected by LHRC's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by LHRC's internal control.


Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described in the schedule of findings and questioned costs are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LHRC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two matters described in the accompanying schedule of findings and questioned costs as instances of noncompliance that are required to be reported under *Government Auditing Standards*.

LHRC's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit LHRC's responses and, accordingly, we express no opinion on them.

This report is intended for the information of the Board of Directors, management, state and federal granting agencies, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.



Certified Public Accountants

Baton Rouge, Louisiana
November 14, 2009



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Louisiana Health and Rehabilitation Center, Inc.
Baton Rouge, Louisiana

Compliance

We have audited the compliance of **LOUISIANA HEALTH AND REHABILITATION CENTER, INC. (LHRC)** (a non-profit organization) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. LHRC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the LHRC's management. Our responsibility is to express an opinion on LHRC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about LHRC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on LHRC's compliance with those requirements.

In our opinion, LHRC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of LHRC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered LHRC's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LHRC's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described above and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses as defined above. However, as discussed in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

LHRC's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit LHRC's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Organization's management and Board of Directors, the Louisiana Legislative Auditor and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statutes 24:513, this report is distributed by the Legislative Auditor as a public document.



Certified Public Accountants

Baton Rouge, Louisiana
November 14, 2009

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

Baton Rouge, Louisiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2009

1) Summary of Auditors' Results:

- A) The type of report issued on the financial statements: **Unqualified opinion**
- B) Significant deficiencies in internal control were disclosed by the audit of financial statements: **2009-1, 2009-2, 2009-3, 2009-4**
Material weaknesses: **2009-1, 2009-2, 2009-3, 2009-4**
- C) Noncompliance which is material to the financial statements: **2009-1, 2009-2**
- D) Significant deficiencies in internal control over major programs: **2009-1, 2009-2**
- E) The type of report issued on compliance for major programs: **Unqualified opinion**
- F) Any audit findings which are required to be reported under Section 510 (a) of OMB Circular A-133: **2009-1, 2009-2, 2009-3, 2009-4**
- G) Major programs:

U.S. Department of Health and Human Services

State of Louisiana/ Department of Health and Hospitals
Office of Addictive Disorders
Access to Recovery
C.F.D.A. 93.275

State of Louisiana/ Department of Social Services
Office of Community Services
Awakening Emergency Shelter
C.F.D.A. unknown

- H) Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**
 - I) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133:
No
- 2) Findings relating to the financial statements reported in accordance with Government Auditing Standards: **2009-1, 2009-2, 2009-3, 2009-4**
 - 3) Findings and questioned cost relating to federal awards: **2009-1, 2009-2, 2009-3, 2009-4**

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

Baton Rouge, Louisiana

SUMMARY OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2009

2009-1 Accounting Overview/Financial Statement Preparation

Observation: As a result of our audit, we found a lack of review and reconciliation in certain areas of the accounting and finance functions. Several account balances required reconciliation and corroboration to external documents to finalize preparation of the financial statements. The observations found are as follows:

- Cash - as part of our auditing procedures, we noted that certain cash receipts were posted as of June 30, 2009 but were actually received and deposited in July 2009. These receipts were accounted for as outstanding deposits at June 30, 2009.
- Accounts receivable – adjustments to the general ledger account were required to reflect amounts received subsequent to the fiscal year end.
- Prepaid expenses – the recorded balance required an adjustment for amounts not prepaid at year end.
- Accounts payable – adjustments to the general ledger account were required to reflect amounts owed but not paid at June 30, 2009.
- LHRC relies on its auditors to assist in the preparation of external financial statements and related disclosures. Under U.S. generally accepted auditing standards, the auditors cannot be considered part of the LHRC's internal control structure, and because of limitations of the LHRC's accounting staff, the design of the internal control structure does not otherwise include procedures to prepare external financial statements and related disclosures in conformity with generally accepted accounting principles.

Recommendation: Our recommendations are as follows:

- We recommend that LHRC implement the following:
 - All journal entries be reviewed by the CFO for account coding and support before approval for posting to the general ledger.
 - Accounts receivable and accounts payable clerks reconcile subsequent transactions to their posting on the relevant agings.

Management's corrective action plan: Management has indicated that it will consider the recommendations to improve the accuracy of the financial statements as well as its controls over financial statements.

2009-2 Support for Cash Disbursements (Resolved)

Observation: During our testing of expenditures of LHRC, we observed that check copies, in-house requisitions and/or credit card statements were the sole documentation retained in support of certain disbursements through December 2008. The purchases were charged to fixed asset accounts as well as expenses based on the name of the vendor rather than a detailed invoice. Policy through December 2008 allowed for the employee to prepare an affidavit of validity as appropriate support for credit card purchases.

Recommendation: We recommend that approved vendors be identified for items such as office and program supplies. Purchases should be approved in advance and this approval should be documented by a signature and date on the purchase order or invoice. Furthermore, all cash disbursements should be supported by a third party invoice.

Management's corrective action plan: Management indicated that during 2009 it changed its cash disbursement procedures to require supporting documentation before a check is issued. Furthermore, management stated that they have company approved vendors for certain expenses and that multiple vendors are being consulted before reoccurring purchases.

2009-3 Suspension and Debarment

Observation: Under the compliance provisions of OMB Circular A-133 Compliance Supplement, as amended, an entity is prohibited from contracting with vendors that are suspended or debarred from conducting business with federal award programs. Under these provisions, an entity must certify that a vendor is not suspended or debarred under transactions that are expected to equal or exceed \$25,000. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), which can be accessed on the Internet (<http://cpls.arnet.gov>)

Recommendation: Procedures should be implemented to document compliance with the suspension and debarment provisions of the OMB Circular A-133 Compliance Supplement, as amended.

Management's Response: Management will begin reviewing the EPLS website and maintaining confirmation of the listing review to adhere to the federal requirement.

2009-4 Federal Award Billing and Expense Support

Observation: Under the compliance provisions of OMB Circular A-133 Compliance Supplement, as amended, an entity must maintain documentation supporting the benefits paid on behalf of eligible individuals. This would include documentation relating to patient admit and discharge dates. In our testing of two federal programs, totaling 80 participants, we noted a lack of supporting documentation relating to admit and/or discharge dates for 16 patients. We found LHRC had written procedures relating to billing that required the use of the census or log-in sheets in preparing the billing, but no procedures on maintenance of the documents used in the billing process.

Additionally, under the compliance provisions of OMB Circular A-133 Compliance Supplement, as amended, an entity must maintain documentation to support that costs related to federal programs were correctly charged as to account, amount, and period. In our testing of two federal programs, totaling 80 disbursements, we found a lack of supporting documentation for 15 disbursements. Also, 7 of the 80 disbursements were supported by an invoice; however the allocation to the various programs was not documented. Lastly, finance charges for past due amounts to vendors were charged to the programs 3 times. Finance charges are not considered allowable costs. LHRC has written procedures relating to the filing of supporting documents.

Recommendation: In addition to the steps indicated in the policy manual relating to billing, documentation procedures should be added that include maintenance of source documents, particularly census reports and log-in sheets. The procedures already in place regarding maintenance and filing of supporting invoices should be followed during the disbursement process.

Management's Response: Management will establish and implement procedures so that proper documentation is available to support billings as well as disbursements.

LOUISIANA HEALTH AND REHABILITATION CENTER, INC.
Baton Rouge, Louisiana

SUMMARY OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2009

2008-1 Accounting Overview/Financial Statement Preparation

The issues related to accounting overview/financial statement preparation have been reclassified as Finding 2009-1.

2008-2 Support for Cash Disbursements

This finding has been reclassified as part of Finding 2009-2.